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China: Foreign Trade Policy in the 1970s

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Central Intelligence Agency
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Key Judgments

Policy and Politics

- A Chinese decision to expand foreign trade, made in the early 1970s, marked a return, on a larger scale, to the trade policies of the mid-1960s.
- Debate over this policy was one of the major features of the political struggle between the radical and moderate factions within the Chinese leadership for the next several years.
- Leftist attacks were strongest during the Campaign To Criticize Lin Piao and Confucius (1973-74) and the Anti-Teng Hsiao-ping Campaign (late 1975 to autumn 1976).
- The trade debates aired genuine radical-moderate differences over foreign trade policy; they were also a vehicle for political opportunism. The real differences centered on the interpretation of self-reliance, but they were greatly magnified in the propaganda, as radicals sought to discredit their moderate opponents.
- The moderate faction's program, launched in 1972, was highlighted by large-scale purchases of Western technology, increased use of credits, and an export drive to pay for imports.
- The strategy unraveled when the need for record agricultural purchases and Western inflation and recession led to a balance-of-payments crunch in 1974. Peking reacted by holding down imports in 1975. Imports tumbled in 1976 as political infighting disrupted the economy and hampered planning.
- The basic policy still holds, however. It was reaffirmed repeatedly in 1977, and trade levels recovered.

- Peking's traditional conservative reaction to economic forces, not politics, has been the dominant influence on the trade sector. Radical attacks may have slightly strengthened the reaction to balance-of-payments problems. Local dislocations stemming from political turmoil cut severely into imports in 1976. But the dominant influences were agricultural production and debt avoidance.

Outlook

- A new major round of technology purchases will begin soon; the emphasis will be on lagging industries, such as steel, petrochemicals, electric power, and transportation. The better the agricultural situation, the more funds will be available for industrial purchases.
- Concerted efforts are under way to increase exports, but they will bear fruit only slowly. One key to export earnings in the short run is the recently signed long-term agreement with Japan. For the longer run, the Chinese are seeking both to develop export industries and to improve marketing.
- Peking remains unwilling to admit to direct foreign borrowing but has adopted several techniques of obtaining only thinly disguised foreign credit. Further movement along this path is likely to be slow—but inexorable.
- China's foreign trade and financial policies nonetheless remain conservative. Trade is a small part of the economy—roughly 5 percent of gross national product. Self-reliance is the guiding principle which, since the Sino-Soviet split, has meant avoidance of dependence on any one country and cautious use of foreign credits. Under these circumstances, dramatic changes in trade levels or patterns are unlikely.

China: Foreign Trade Policy in the 1970s

Background

Since the founding of the People's Republic of China (PRC), foreign trade has been a small but important sector of the economy. The Chinese have always recognized the value and necessity of foreign trade as a means of making up for shortfalls in production, providing goods not available in China, and acquiring advanced technology.

Economic and political necessity led to heavy dependence on the Soviet Union in the 1950s. The need to rebuild the economy amid the Western embargo on China led Mao to pursue a policy of "leaning to one side" by which China based its industrial and technological growth on a rapid buildup of trade with the USSR. Sino-Soviet trade—about one-half of China's trade in the first decade of the PRC—peaked in 1959 when imports and exports totaled $2 billion. Imports from the USSR provided the major impetus to China's industrialization efforts, supplying both capital goods and industrial raw materials. Soviet aid provided $1.4 billion in credits and large amounts of technical assistance.

The abrupt withdrawal of Soviet technicians—blueprints and all—in mid-1960 was a serious shock to the Chinese economy, already strained by the Great Leap Forward. Peking decided to reduce its dependence on the USSR. Sino-Soviet trade plummeted to 20 percent of the 1959 peak by 1965. China decided to pay off its Soviet debts ahead of schedule by running a hefty trade surplus with the USSR during 1961-65. The unhappy experience with Soviet economic cooperation left a deep impression on the Chinese that persists today in their reluctance to depend too heavily on any one country for trade or to incur large debts.

After 1960 China reoriented its trade toward Japan and the West, shifting 80 percent of its trade to the non-Communist countries by the end of the decade. At first the principal impetus came from harvest failures that led to substantial grain imports. By 1962 the economy was recovering from the setbacks of the Great Leap and China turned to the West for increasing amounts of industrial supplies and capital goods. In mid-1963 Peking began to purchase complete plants and the services of Western technicians from Japan and Western Europe, financed in part by medium-term credits. By 1966 contracts for over 50 plants worth more than $200 million had been signed.

The Cultural Revolution (1966-69) cut short this resurgence in the trade sector. Economic disruption in 1967 hampered exports, and imports were cut in 1968, in part to correct the trade deficit. Trade relations with many countries were strained by Red Guard harassment of foreign businessmen and technicians at plant sites. The plant import program was suspended and Techimport, the trade corporation for technology imports, was dissolved in 1969.

Foreign Trade Debates

With the restoration of orderly economic planning after the Cultural Revolution, the leadership—with Mao's approval—embarked on a program to accelerate economic development. The goals of this program, publicly revealed by Premier Chou En-lai at the Fourth National People's Congress in 1975, were the Four Modernizations: modernize China's agriculture, industry, science and technology, and defense by the end of the century. A key element of this program was a new emphasis on foreign trade, highlighted by large-scale imports of foreign technology, an export drive to boost foreign exchange earnings, and a more liberal credit policy. The apparent goals of the trade policy for the 1970s were:

- Increased purchases of foreign technology to spur modernization and industrial supplies to meet the needs of the expanding economy.
- An export drive to increase foreign exchange earnings through expanded markets for traditional goods and larger exports of raw materials, particularly petroleum.
- Balancing total foreign exchange expenditures against total foreign exchange revenues; thus, a more liberal use of credits for capital imports and other forms of import financing.
- Expanded trade relations with all nations, regardless of social system, but without dependence on any one country.

Debate over foreign trade policy in the 1970s has centered on the elusive Chinese concept of "self-reliance." While never officially defined, self-reliance has been described in such terms as "maintaining independence," "relying primarily on our own efforts," "keeping the initiative in our own hands," and "learning what is good from foreign countries." These ambiguous statements, of course, leave open a number of questions—for example, what is the proper level of foreign trade? What types of goods should be imported? How to balance technology imports with the need to develop indigenous technical capabilities? To what extent do export requirements and use of credits compromise independence?

Throughout the foreign trade policy debates of the 1970s, it was possible to discern in the Chinese propaganda two opposing points of view, which, for the sake of simplicity, can be classified as "radical" and "moderate." It should be kept in mind, however, that the boundaries between these two competing persuasions have often been blurred and that the personalities allegedly subscribing to each view have sometimes changed sides owing to genuine conviction as well as purely political motivation.

The Radical View

In general, the radicals believe that large-scale imports of foreign goods undermine the faith of the Chinese people in the success of the revolution. The radicals fear that exposure to capitalists, capitalist-made products, and capitalist business procedures gradually erodes the "revolutionary will" of the masses, leading eventually to "revisionism." In addition, according to the radical view, China should never again rely on the outside world. China's leaders should rely instead on the "wisdom of the masses" in order to discover, develop, and master new technology. Reliance on foreigners, in the eyes of the radicals, would not only rekindle the latent sense of Chinese inferiority caused by a century of humiliation at the hands of the West but also make China vulnerable to future economic "blackmail."

The Moderate View

The moderates, who view China as a weak, vulnerable, and underdeveloped country, are concerned, above all else, with the ultimate goal of transforming China as rapidly as possible into a modern, industrialized state. Because the modernization of a backward China requires the import of goods from the industrially and technologically advanced West, foreign trade is considered by the moderates to be essential. Moreover, in contrast to the radicals, the moderates are concerned less about the possibility that China may become tainted with "revisionism" by dealing with the capitalist West and more about the much stronger probability that China will not be able to keep pace economically without the West's goods and technology.

A brief review of the major foreign trade debates of the 1970s, which took place during two periods of intense political conflict among the Chinese leadership, provides much insight into the actual differences between radical and moderate foreign trade policies.

The Campaign To Criticize Lin Piao and Confucius, 1973-74

During the course of the relatively brief but disruptive Campaign To Criticize Lin Piao and Confucius, many articles—usually allegorical in style—appeared in the Chinese media both attacking and defending the foreign trade policies that were then being implemented by the moderates led by Premier Chou En-lai.

In their rhetorical attacks, the radicals criticized the moderates' foreign trade policy, charging the moderate leaders with such "crimes" as being "slaves of foreigners," "not relying on the masses," "trailing behind at a snail's pace," and being "agents of imperialism." The moderates, in response, defended their policies by emphasizing, usually with the help of a quotation from Chairman Mao Tse-tung the importance of foreign trade in economic modernization.

Perhaps the best defense of moderate foreign trade policies at the time was made in January 1974 by Foreign Trade Minister Li Chiang in the lead article of the newly resurrected journal, *China's Foreign Trade*, which had ceased publication during the Cultural Revolution. Although Li acknowledged the need for self-reliance in foreign trade and reaffirmed that China never intends to attract foreign investment capital, condone exploitation of domestic or Third World natural resources, or engage in joint ventures; he asserted that China does wish to participate in "negotiation by the two business parties in the light of common international trade practice"—a clear reference to more liberal financing procedures. To make his defense of "making foreign things serve China" legitimate, the Foreign Trade Minister quoted from a 1949 Mao Tse-tung statement which declared that the "Chinese people wish to have friendly cooperation with the people of all countries and to resume and expand international trade in order to develop production and promote economic prosperity." Interestingly, this obviously moderate statement was not again publicized in the Chinese press until after the purge of the "gang of four" (see below).

The Anti-Teng Hsiao-ping Campaign (Late 1975 to Autumn 1976)

Radical critiques of moderate foreign trade policy, which had dropped noticeably in frequency after early 1975, resumed in force during the campaign to discredit Teng Hsiao-ping. The renewed upsurge in radical attacks undoubtedly reflected the rising influence of the "gang of four." Several of the "rightist" policies attributed to Teng and severely criticized by the radicals were directly concerned with foreign trade. One Teng document, entitled, "Some Questions on Accelerating the Development of Industry" ("20 Points," for short) proposed both the increased export of China's natural resources—especially oil and coal—in order to pay for advanced technology, and the signing of contracts with foreign countries "in accordance with accepted practices of international trade such as deferred payments and installment payments."

The most common criticism of Teng's "20 Points" made by the radicals was that Teng wanted to "sell China out to the imperialists." Rhetorically, these attacks usually took the form of charges that Teng attempted to turn China into a "raw material base," a "repair assembly workshop," and an "investment ground for imperialism."

In addition, according to recent Chinese press accounts, the radicals extended their attack beyond Teng Hsiao-ping to the Ministry of Foreign Trade, which they denounced as the "Ministry of National Betrayal." The radicals also criticized oil exports, denouncing them as "shifting the international energy crisis on the Chinese people." One report released in the Chinese media after the October 1976 purge of the "gang" accused the now-discredited radicals of having instructed their subordinates in Shanghai and Liaoning to convert certain coal-powered factories to the use of oil, thereby creating an artificial "oil crisis" for which the moderates' export policy could be blamed.

The Role of the Debates

The polemical articles appearing in the Chinese media during the two periods of foreign trade policy debate appear to have served two purposes simultaneously. First, the articles aired honest differences between moderates and radicals over such issues as the type and amount of foreign technology to import, and the methods for financing these purchases. Second, the polemics provided a platform for the radicals to

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attack moderate leaders through a frontal assault on moderate foreign trade policies.

These two aspects of the foreign trade policy debates tend to cloud their role and purpose. Although differences between radicals and moderates did exist over certain foreign trade policies, these differences were magnified in the media as each side attempted to discredit the other. On the other hand, the radical-moderate ideological disagreements cannot be entirely dismissed as political opportunism.

Foreign Trade—A Larger Role in the 1970s

While the foreign trade policy debates were taking place, the moderates, led by Chou En-lai, continued to implement their newly formulated foreign trade policy. China improved relations with its traditional trading partners and opened trade relations with others, most notably the United States. Table 1 illustrates the rapid increase of China's foreign trade in the 1970s. Trade data in current US dollars, of course, show the effects of inflation and devaluation of the dollar as well as the growing volume. Nevertheless, real growth in trade was substantial. The Communist countries benefited from the overall expansion of Chinese trade but did not improve their share.

Technology Imports

Signs of a more expansive trade policy began to appear in 1970-71 with a sharp upsurge in inquiries and negotiations for complete plants and increasing purchases of major items of machinery and equipment. Techimport was recreated as a separate trading corporation in November 1972 and the first major plant contracts began to be signed that year. During the first half of the 1970s China purchased nearly $6 billion worth of Western industrial plants, transport equipment, specialized machinery, and scientific instruments. These purchases have entailed the largest influx of technicians into China since the 1950s—some 3,000 Western technicians in the past several years. In addition, more than 2,500 Chinese have been trained abroad under these contracts.

Complete plants have been the cornerstone of China's technology imports. Beginning in 1972, over 140 plants worth about $2.8 billion have been purchased. The pattern of plant purchases reflects Peking's wariness of becoming overly dependent on any one supplier. Contracts have been scattered among Japan, Western Europe, and the United States with only Japan's share being more than one-third of the total. The plant program has concentrated on facilities for the

Table 1

China: Foreign Trade

Billion US $

	Total Trade		Non-Communist Countries		Communist Countries	
	Exports	Imports	Exports	Imports	Exports	Imports
1970	2.1	2.2	1.6	1.9	0.5	0.4
1971	2.4	2.3	1.9	1.8	0.6	0.5
1972	3.2	2.8	2.4	2.3	0.7	0.5
1973	5.1	5.2	4.1	4.5	1.0	0.7
1974	6.7	7.4	5.2	6.4	1.4	1.0
1975	7.2	7.4	5.8	6.4	1.4	1.0
1976	7.2	6.0	6.0	4.9	1.2	1.1
1977 [1]	7.9	6.9	6.4	5.4	1.5	1.4

[1] Estimates based on a 15 January 1978 claim by the New China News Agency that trade in 1977 increased more than 12 percent over 1976, reaching the highest total in PRC history, with a favorable balance of trade. In this paper, exports are f.o.b. and imports are c.i.f.

petrochemical, metallurgical, and electric power industries with the twofold aim of acquiring advanced technology and permitting import substitution for major commodities such as grain, fertilizer, steel, and cotton.

Concealed Borrowing

Since the repayment of its loans from the USSR in 1965, China has publicly prided itself on being a nation without debts. Although Peking's financial policies are ultraconservative, this no-debt claim is a facade based on Chinese definition. Short-term credits of six to 18 months have been used since the early 1960s for purchases of Western grain and fertilizer, and several plants in the mid-1960s were financed by medium-term credits from Japan and Western Europe. Use of five-year medium-term credits was resumed, but on a much larger scale, for plant purchases in the 1970s. Contracts for complete plants totaling $1.5 billion have been financed under credits from Japan and Western Europe as of 1972. In line with China's conservative financial policy, the financing has all been done with supplier credits—that is, the firm that supplies the plant borrows the money, and China repays the firm over five years with interest. By Peking's definition this method of financing is called "deferred payments," not loans.

In addition to the plant credits and the continuing grain credits, Peking began to tap other sources of short-term financing to support its increasing imports of industrial supplies.

Export Drive

China also launched a parallel drive to boost export earnings. Before the 1970s Chinese export goods were noted primarily for their low prices, which compensated foreign importers for the often frustrating deficiencies in style, quality, and delivery schedules. Beginning in 1972 workers were exhorted to increase production of export goods and to improve the quality and packaging of these products. PRC trade delegations began to travel to many Western countries, trade agreements were signed with the growing number of nations establishing relations with Peking, and China began to stage or participate in greater numbers of trade fairs overseas. Emphasis was put on increasing the proportion of manufactured goods in total exports and greater attention was given to raising prices to international levels. Finally, a major port improvement program was launched and China's international fleet was expanded to handle the growing trade.

The export drive got added help in 1973 when the Arab oil embargo and OPEC price hikes created demand for China's newly available surplus of crude oil. Despite the relatively small quantities available, the premium prices asked, and the adverse refining characteristics of China's oil, oil exports soon became a sizable component of export earnings—11 percent in 1975—largely because of sales to Japan.

The export drive was very successful, but not trouble free. The value of China's exports to the non-Communist world jumped sharply from $1.6 billion in 1970 to $6.0 billion in 1976. Even in real terms, Chinese exports roughly doubled over the period. But problems arose in the course of the rapid expansion. Prices of some commodities at the 1973 spring Canton fair were set too high and had to be rolled back at the fall fair. A September 1973 NCNA article admitted that China could not produce enough to meet the needs of its growing foreign trade. Failures by the Ministry of Foreign Trade prompted criticism from Premier Chou himself.

Trade Strategy Unravels

Expansion of China's trade meant greater exposure to the vagaries of the world economy. Growing economic problems in the West combined with domestic agricultural setbacks to disrupt Peking's trade plans by the mid-1970s.

Just as China began its major technology purchases, poor harvests, especially in 1972, forced Peking to import record amounts of agricultural products at a time of tight world supplies and sharply rising prices. Imports of agricultural products jumped from $0.6 billion in 1972 to $1.4 billion in 1973 and then to $2.0 billion in 1974. Meanwhile worldwide inflation was pushing up the costs of China's imports of machinery and industrial supplies such as fertilizer and metals. Downpayments on the $1.3 billion in whole plant contracts signed in 1973 added to the financial burden.

China's hard currency trade deficit hit $440 million in 1973, more than five times the surplus level of the previous year but still manageable because of credit financing. Although another substantial deficit was expected, Peking probably did not anticipate the deterioration in its balance of payments in 1974. The crunch came in the second half of the year as the bulk of repayments for grain credits from 1973 fell due and growing world recession cut demand for Chinese exports. Measures were taken to reduce foreign exchange outlays by canceling contracts and delaying deliveries of agricultural products and scaling back purchases of machinery and equipment. Despite these measures the trade deficit with the West hit a record $1.2 billion.

A general retrenchment in foreign trade followed in 1975. Improved harvests in 1974 permitted cutbacks in agricultural imports. Meanwhile, higher oil deliveries more than offset declining traditional exports to the recession-plagued West. Peking thus was able to cut its hard currency trade deficit in half, thereby easing pressure on the balance of payments. Table 2 shows the pattern of trade with the non-Communist world including the results of Peking's efforts to correct its deficits. The steady decline in new plant orders from the peak year of 1973 reflects not only a desire to trim back outlays for downpayments and future machinery imports, but also the need for a breathing space to enable China to absorb the large amounts of technology already received or on order.

In 1976 Peking probably intended to continue to restrain imports moderately in the face of lagging Western demand for its exports. Grain requirements were the lowest in years and equipment deliveries for whole plants were declining as the contracts from previous years were winding up. Political turmoil, however, disrupted the economy, prevented agreement on the new five-year plan for 1976-80, and inhibited initiatives by the trading corporations. Imports from the West plummeted while exports continued to rise, largely unscathed by the disorders. The result was a record $1.1 billion trade surplus with the West for the year.

Trade in 1977

Trade officials had cautioned foreign businessmen not to expect a rapid recovery in trade in 1977, despite the positive rhetoric, because it would be a year of rebuilding for the economy after the setbacks of 1976. On 15 January 1978, NCNA announced that exports and imports in 1977 grew by more than 12 percent, reaching the highest total in PRC history with a favorable

Table 2

China: Selected Non-Communist Trade

Million US $

	Trade Balance	Imports, c.i.f. Agricultural	Imports, c.i.f. Machinery and Equipment	New Contracts for Complete Plants
1972	95	650	255	58
1973	−440	1,405	520	1,265
1974	−1,185	1,960	1,240	851
1975	−585	1,030	1,710	410
1976	1,115	645	1,295	160
1977 [1]	1,000	1,500	1,000	62

[1] Estimate.

balance of foreign exchange. The trade surplus fell slightly short of the 1976 level. Imports rebounded, but remained well below 1974 and 1975 levels. Agricultural imports—at least $1.5 billion worth—and industrial supplies such as steel and nonferrous metals led the growth in imports. Exports, on the other hand, set a new record. Nonoil goods accounted for the bulk of export growth; petroleum deliveries probably posted only moderate gains over 1976.

The anticipated surge in new contracts for whole plants did not materialize last year—only three contracts worth about $60 million were signed. Delay in setting import priorities was probably the major factor, although the need for large-scale agricultural purchases may have raised concern over avoiding another balance-of-payments crunch as in 1974. Orders for major equipment did pick up steam, however, reaching around $200 million.

An Assessment of the Impact of Economic and Political Factors on Foreign Trade Policy

The interplay of global and domestic economic factors and Chinese politics is complex, and the relative impact of each of these forces on China's foreign trade policy and operations cannot be precisely weighed. The trade policy put forth by Chou En-lai in the early 1970s was still quite conservative by world standards. The share of trade in the overall economy never grew beyond 6 percent of GNP—a small share even for a large country like the PRC—and China's foreign debt position was kept well within safe limits. Setbacks to trade expansion plans were due primarily to economic factors Peking could neither anticipate nor control—the unfortunate combination of poor Chinese harvests and Western inflation and recession. Although the deterioration of China's balance of payments in 1974 roughly coincided with the beginning of the Campaign To Criticize Lin Piao and Confucius, the resulting cutbacks in imports were typical of Peking's historically conservative reaction to large trade deficits. Criticism by radical leaders of imports may have strengthened this reaction, but the net effect was probably not great.

This is not to say that politics did not play an important—albeit negative—role in China's foreign trade policies of the 1970s. Many local political figures took advantage of the moderate-radical debates in Peking in order to pursue disruptive factional causes at home. These local disputes frequently resulted in serious economic dislocations including factory work stoppages and railway workers' strikes, which indirectly affected the export industry. Although there is no evidence that ranking leaders within the Ministry of Foreign Trade were attacked by the radicals, there are reports that some lower level foreign trade personnel, both in Peking and the provinces, were intimidated by local followers of the "gang of four." 25X1

25X1

The radicals, in short, acted as a negative rather than a positive political force in foreign trade policy. Despite the radicals' reported "control" of the mass media, their domination of many local political organizations, and their occasional enlisting the support of Mao Tse-tung by playing upon the Chairman's fears that the moderates would eventually reverse his most "revolutionary" accomplishments (most notably the Cultural Revolution), the radicals failed to develop a positive policymaking force in the foreign trade arena. There were no purges of foreign trade officials; the foreign trade corporations, including Techimport, continued routine operations; and foreign businessmen were constantly reassured that basic policy was unchanged.

According to several recent articles in the Chinese media, the radicals first went along with the moderates' foreign trade policies and even selected some of the future locations of imported complete plants, but subsequently "went back on their words" and attacked the moderates' trade policies "for ulterior motives," that is, power seizure.

The failure of the radicals to develop or press an independent foreign trade policy reflects their lack of a power base within the foreign trade apparatus. Had they been able to seize power, they might have pursued a more restrictive trade policy. Trade, however, would still be necessary and even the radicals admitted that some imports of technology were good if they advanced China's economic development. But, when the Hua Kuo-feng administration purged the "gang of four" in October 1976, the radicals were "nipped in the bud."

Outlook for China's Trade Policy

The Hua Kuo-feng regime was quick to publicize the important role foreign trade will play in the new leadership's overall developmental goals. Almost immediately following the ouster of the "gang of four," the New China News Agency released a dispatch from the autumn 1976 Canton trade fair that quoted, for the first time since the January 1974 Li Chiang article in *China's Foreign Trade*, Mao Tse-tung's 1949 declaration of China's intention to trade with all nations in order to promote economic prosperity. Later, at a national agricultural conference in December, the new party chairman disseminated for the first time publicly a 20-year-old Mao speech entitled "On the Ten Major Relationships." This remarkably pragmatic speech, which was obviously being used to place Mao's mantle on the new regime's moderate economic policies, included a section on foreign trade in which the Chairman declared that it is China's policy "to learn from the strong points of *all* nations and *all* countries" (emphasis added).

During 1977, various articles in the authoritative party newspaper, *People's Daily*, and in other national media continued to reaffirm the importance of foreign trade to China's national economy. In addition, a national conference on foreign trade—the largest since the creation of the PRC—was held in July, both giving national attention to, and symbolizing the new leadership's interest in, foreign trade. Perhaps the clearest single statement on the foreign trade policies of the Hua administration was the article written by Foreign Trade Minister Li Chiang in the October issue of the party's theoretical journal, *Red Flag*. Drawing on Lenin as well as Mao, Li restated the new regime's interest in foreign trade and remarked that, in accordance with the principle of "self-reliance" and with Chairman Mao's "Three Worlds Theory," China would export "our products in exchange for advanced technology, equipment, and materials that are needed in socialist construction in our country."

Li broke some new ground in at least two areas: the production of export goods and trade practices. With regard to exports, Li stated that "bases" are to be established "at selected points" in order to increase the quality and stabilize delivery of "well-known brands." In addition foreign trade personnel will, according to Li, assume a more active role in supervising the actual production of export goods. Concerning financial practices, Li suggested that China will loosen up its traditionally conservative policies by adopting "accepted practices in international trade," employing expanded use of deferred payment financing, perhaps for longer terms.

Overall, the Chinese have established clear priorities for imports and have decided to expand their exports of both traditional goods and natural resources. Recently Li Chiang told a visiting delegation that China would import only the most advanced technology and a State Planning Commission official announced that "following development in industrial and agricultural product, China will sell more and more petroleum, coal, and other products to buy advanced equipment." In essence, these public statements reaffirm the trade policies of the early 1970s. While these vague policy pronouncements leave room for liberalized interpretations of self-reliance, it is unlikely that the present leadership will go so far as to abandon the traditional ideological constraints on foreign trade.

A gain in the political influence of the radical faction—an unlikely prospect in the near future—could affect trade if political turmoil again disrupted the economy. But, even if the radicals achieved power, trade would remain necessary and trade levels could not be cut substantially without damaging the economy. Any such cuts likely would be in the area of imported technology, and even here the radicals have admitted in their own propaganda the value of "some" foreign purchases.

Prospects for 1978 and Beyond

Since the trade policies of the post-Mao regime are still essentially conservative, foreign trade is likely to expand at a relatively moderate pace—perhaps 10 to 20 percent per year—and not grow significantly as a share of the Chinese economy. Trade will continue its present strong orientation to the West. Even with improvement in political relations with the USSR and Eastern Europe, trade with the Communist countries will remain at around 20 percent of China's total trade. The Communist countries cannot provide the types of advanced technology that China is seeking in the West, nor would they be willing to provide hard currency markets for Chinese exports.

With a commitment to an active, albeit still cautious, foreign trade policy, economic factors, both domestic and foreign, will govern Peking's ability to expand trade. In general, China's success in increasing exports together with its willingness to use foreign credits will be the major constraints on import growth. In addition, year-to-year needs for agricultural imports will also affect the pace of technology purchases.

Exports

Concerted efforts are under way to improve export potential, but they will bear fruit only slowly. China's traditional exports of foodstuffs, textiles, light manufactures, minerals, and metals face the twin problems of inadequate supply and limited foreign demand, particularly in the developed countries. Chinese trade delegations are roving the world seeking better knowledge of foreign markets; trading corporations are making efforts to produce goods to buyer specifications and to ensure prompt delivery; two new trading corporations—China National Packaging Corporation and China National Arts and Crafts Import-Export Corporation—have been established. There are even hints of intentions to establish specific export industries. But progress will be hampered by the fact that many of the products come from China's slowly growing agricultural sector. Higher levels of traditional exports will also run into barriers from protectionist action by developed countries, particularly on sensitive products such as textiles and footwear, and from the growth of competing industries in the Third World.

While increased sales of oil and coal have been discussed by Peking, the long-term potential is uncertain. Coal reserves are huge, but much investment is needed in this lagging sector. Current estimates point to declining supplies of oil for export by the mid-1980s. For the near term, exportable surpluses of oil exist; yet marketability is hampered by high prices, transport costs, and undesirable refining characteristics. Moreover, Japan is the only viable major market. The long-term trade agreement (LTTA) signed with Japan in February 1978 will secure a market for China's oil and coal although growth of these exports will be limited. Under the eight-year agreement, deliveries for the first five years will total 345 million barrels for oil and 9.2 million tons for coal. The quantities of oil and coal will rise slowly through 1981 to 1982 goals of 110 million barrels and 3.7 million tons, respectively. Increased quantities for 1983-85 will be negotiated in 1981. Chinese exports of oil and coal under the agreement are to total $10 billion, with Peking purchasing an equal amount of Japanese plants and equipment in return. Yet to be settled are the knotty problems of Japanese interest rates for plant credits and sales of equipment restricted by the Coordinating Committee on Export Controls (COCOM).

Imports

Increased purchases of foreign technology will be the highlight of growing Chinese imports over the next several years. Negotiations and inquiries for complete plants are picking up and a major round of contracts is expected in 1978. Technology purchases will be aimed at lagging sectors of the economy such as steel, petrochemicals, electric power, and transportation. Orders for major equipment, particularly for the petroleum industry, will continue the upward trend begun in 1977, and imports of industrial supplies will rise as the domestic economy expands. Agricultural imports, of course, remain a question mark. Mediocre harvests in 1977 will keep foodstuffs imports at high levels into 1978. This may have a dampening effect on the rate of technology purchases, but improved agricultural performance would quickly lift this constraint.

Although the ability to expand exports to pay for imports will be Peking's primary concern, liberalized policies on import financing could accelerate the growth of technology imports. Bank of China delegations to Japan and Western Europe in 1977 explored the possibilities of longer term credits and direct borrowing from Western banks. One area of particular interest to Peking is the financing of plant imports through deposits by foreign banks with the Bank of China. This has been discussed with both Western Europe and Japan. The appeal, of course, is that this could be disguised as "normal banking practices" to enable Peking to maintain its no-debt facade. Financing of capital imports would make sense for the Chinese: larger amounts of plant and equipment could be purchased than current export levels would allow; higher export levels and any import substitution effects from the completed plants could ease the financial burden during the repayment period.

Peking is in a good position to launch its import drive: the political situation has stabilized, the economy is recovering, trade has chalked up two years of record surplus, and repayments on the previous round of plants will begin to decline next year. Credit policies will probably be liberalized only gradually with Peking incrementally accepting slightly longer repayment terms and adopting financing methods that edge closer to direct borrowing. Debt levels will be kept within safe margins with a close eye on the balance of payments. Besides the trade and financial factors, China's technical ability to absorb large amounts of advanced technology will also limit the number of plants being delivered at one time. Therefore, plant purchases may follow the previous pattern of a large initial bulge with declining contract levels as the technology is digested.

Even with this cautious approach, trade expansion will expose the trade sector more heavily to external economic forces that can alter the patterns of trade. As in the early 1970s, inflation, recession, supply shortages, and even shifts in foreign tastes will influence both Chinese imports and exports and force Peking to make adjustments in its trade strategy.

Ideological Limits

The protrade rhetoric currently emanating from Peking raises the question of how far the foreign trade option might be pushed. Dramatic increases in trade would require an extremely broad interpretation, or even abandonment, of the Chinese concept of self-reliance. This development could only come about through a victory by an ultrapragmatic modernizer faction over opposition from both leftist and conservative-moderate rivals.

The type of action that might be taken to expand trade would depend on the degree to which self-reliance is compromised. In ascending order Peking could decide to accept long-term credits but maintain the no-debt facade, openly accept direct loans, purchase plant and equipment on a compensation basis, or permit joint ventures in China. These, of course, are some of the very things cited by the Chinese as examples of Soviet revisionism. It would be possible, however, for Peking to perform the proper semantic gymnastics to defend such actions.

In recent months Peking has been pushing a line of new flexibility in foreign trade and finance. Chinese officials have been considering trade and financing arrangements that they would not even discuss previously:

- Long-term credits and financing capital imports through foreign bank deposits with the Bank of China.
- Use of barter and compensation deals for plant purchases.
- Imports of materials for reprocessing for export.
- Plants producing goods specially for the Japanese market.
- Chinese compliance with international standards on patents, trademarks, and copyrights.
- Cooperation with Japan on offshore petroleum exploration.

An NCNA article on the closing of the 1978 spring Canton fair highlighted the "flexible practices" used at the fair to promote exports. These included supplying goods under customer trademarks and brand names, producing goods using customer-supplied designs and raw materials, bartering for some commodities, and flexibility in setting export prices and contract currencies.

In expanding trade, acceptance of long-term credits probably presents the easiest ideological hurdle for Peking to overcome. Credits from the West are available and Western banks would likely cooperate with Peking suitably to disguise the loans. China appears to be taking the first steps toward accepting bank deposit financing.

Barter and compensation deals would have appeal because export markets for Chinese products could be secured when the plant contracts are signed. Chinese proposals for such deals, however, have met with lukewarm response.

Joint ventures would be the most ideologically troublesome concept for Peking to accept because they would involve direct foreign participation in the Chinese economy. Having the foreign supplier bear the development risks in return for a share of the output would be very helpful to the Chinese, particularly in the area of raw materials and energy. In fact, Peking has approached Japanese and US firms on cooperation in exploiting its offshore oil resources. While the extent of this cooperation has not been detailed, foreign help with this costly and difficult task would make sense for China. Also, being "offshore," such foreign cooperation might be more palatable.

While Teng Hsiao-ping and the other economic pragmatists in the leadership appear to have a freer hand in pursuing more adventuresome trade practices, Peking continues to maintain that its basic policy of self-reliance is unchanged. Official statements still rule out direct loans, joint ventures, and foreign investment in China. In discussing China's interest in Japanese help with offshore oil development, Foreign Trade Minister Li Chiang made the point that China is willing to consider any form of cooperation with Japan, provided that these three principles are not violated. Also, on a recent visit to Austria, Tang Ko, the Minister of the Metallurgical Industry, tempered China's interest in foreign technology with caution over becoming dependent on foreign countries. He rejected loans, but noted that it is possible "to agree on a kind of installment plan." This need to square the new flexibility in trade with self-reliance may well indicate resistence by some members of the leadership.

Despite the current pragmatic approach of the leadership to economic development, it does not seem likely that they would cast off their essentially conservative attitudes to embark on a massive increase in foreign trade. Economic constraints—principally China's ability to expand exports and to absorb technology—will be strong determinants of trade policy along with Peking's ingrained concern over dependence on trade and foreign participation and control of the economy. More likely, the leadership will pursue a policy of cautious trade expansion introducing more flexible practices on a selective and limited basis. The definition of self-reliance will be stretched to justify their new practices, but the basic principle will not be abandoned.

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